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DE RUEHSN #1332 3381514
ZNR UUUUU ZZH
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FM AMEMBASSY SAN SALVADOR
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0399
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEHNSC/NSC WASHINGTON DC

UNCLAS SAN SALVADOR 001332

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: EFIN PGOV ECON ES
SUBJECT: EL SALVADOR UNSURE HOW TO PAY DECEMBER SHORT-TERM
DEBT

REF: A. SAN SALVADOR 1238
1B. CHRISTENSEN-SENICH E-MAILS 11/26/08

¶1. (SBU) SUMMARY. The Ministry of Finance is unsure how to pay \$80 million in short-term government debt on December 15.

The Ministry had planned on \$200 million in funds from the Central American Bank for Economic Integration (CABEI), but was informed in late November that CABEI could only provide \$50 million, which the Government of El Salvador (GOES) had already used. Post has contacted the Department of Treasury regarding the GOES's request for additional technical assistance and will report septel on other fiscal/liquidity issues. END SUMMARY.

¶2. (SBU) On November 26, Manuel Rosales, Director of Fiscal Policy and Public Credit at the Ministry of Finance, called Econoff to alert him that the Government of El Salvador (GOES) was unsure how to cover \$80 million in short-term debt in December. According to Rosales, the GOES has \$60 million in Letters of Treasury ("Letes") which it needs to pay or roll over on December 15. In addition, because of an economic slowdown, the Ministry of Finance now projected a \$20 million shortfall in tax revenue for December and would need to issue \$20 million in new Letes to cover this budget deficit. The Ministry of Finance had successfully covered November's approximately \$65 million in Letes, primarily by using cash deposits from the various "semi-autonomous institutions" (e.g., the port authority).

¶3. (SBU) Rosales noted that local banks continued to refuse to roll over their Letes. The Ministry of Finance had used \$100 million in funds from the Central American Bank for Economic Integration (CABEI) to cover its October Letes and expected to receive an additional \$200 million (reftel A). Rosales reported, however, that CABEI informed the GOES in late November that they would only receive \$50 million more. This last CABEI loan would cover Letes "up to December 15." The Ministry of Finance does not currently have a plan to cover its December debt and requested recommendations and/or follow-on assistance from U.S. Treasury's Office of Technical Assistance (OTA).

¶4. (SBU) COMMENT: The GOES had continued to bank on CABEI funds even after many non-government analysts had projected that CABEI did not have the money (reftel A). Post has already contacted Treasury (reftel B) and will report septel on additional fiscal/liquidity issues.

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